THE LINK BETWEEN DEBT FINANCE AND PROFITABILITY IN THE EMERGING MARKET: A CASE STUDY OF A FURNITURE RETAIL COMPANY

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Abstract

The objective of this research was to establish the impact of debt finance on the profitability of a firm using A furniture retail company (pseudo name "A") as a case study. The mixed methods approach was employed quantitative data from financial statements and qualitative data from interviews. The target population was 25, hence the researchers used a population census, 24 participants assisted in the research. The statistical method used for analysing secondary data was STATA 11. The regression model and variables incorporated were debt ratio, which was the independent variable, and the return on asset ratio, which was the dependent variable, and the measure of profitability in this particular research. Main findings from the research indicated that debt financing was significantly and statistically negatively affecting the return on assets of the company. The regression yielded a p-value of 0.018 and a coefficient of 0.9992 thus confirming a 99.92% that the variability in profitability is well explained by the independent variable used in this research which is debt finance. The study recommends companies to carry out an in-depth cost-benefit analysis of debt financing to ensure optimum profitability especially for small and private limited companies in a volatile economy (Zimbabwe).

Keywords: Debt Finance, Financial Risk, Profitability

Authors' individual contribution: Conceptualization – C.M.; Methodology – L.N. and E.M.; Formal Analysis – L.N., C.M., and E.M.; Investigation – C.M., L.N., and H.I.H.; Data Curation – L.N. and E.M.

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1. INTRODUCTION

A number of studies have been done previously and were focusing on the relationship existing between debt financing and financial performance of manufacturing firms in the developed countries, others focused on companies that are listed on the stock exchange. The current study focuses on the link of debt financing and profitability in an emerging market, the economic conditions prevalent in Zimbabwe are such that the cost of debt is high and the access to funds is still expensive. The paper seeks to address the need to strike a balance in emerging markets as conditions in developed nations vary starkly. Many studies have been conducted where the access and cost to debt are fairly stable, the paper seeks to extrapolate these known positions to an economy that is riddled with

inflation and economic instability. Muchiri, Muturi, and Ngumi (2016), Kartikasari and Merianti (2016), Kirmi (2017), and Acheampong (2014) agree that debt finance makes up the capital structure of firms and has been seen to be having a positive relationship with return on asset, which can be used as a measure of financial performance. Saeed, Gull, and Rasheed (2013), and Ufo (2015) also agreed that not only a positive relationship exists between debt financing and profitability but rather a significant positive impact can be established. Authors like Yazdanfar and Ohman (2015) and Githire and Muturi (2015) also share a similar view that indeed debt finance has an impact on the financial performance as it increases growth opportunities for the firm. On the other hand, Vatavu (2014) recognised a negative relationship between debt finance and profitability as organisations were forced to meet and pay the agreed accrued interests even if when the cash flows are very low in the organisation. They also agreed that continuous borrowing scares away potential investors, as it is widely considered risky to invest in a company whose operations are financed by debt especially those investors who are risk-averse. Nyamita (2014) opines that a weak relationship between debt financing and financial performance, they further go on to suggest other factors that might have an impact on the financial performance of a firm like the size of the firm, market share and many other factors. All the previous researches mainly focused on listed companies and manufacturing companies in developed countries and some of which in developing countries as well, thus providing a gap for the researchers to explore and analyse the impact of debt financing on the profitability of private limited companies in the retail business using a local trading company as a case study.

Debt financing in the form of short or long term loans do have an impact on the financial performance of a company (Asare & Angmor, 2015). Previous research has discovered that an optimal debt ratio may increase the profits of an organisation all things being equal, but failure to maintain an optimal debt ratio might negatively affect the profits of the organisation. The furniture is sold on a cash basis, lay byes as well as hire purchase agreements. A report by the finance director of the furniture retail shop (2014), highlighted that indeed the business was profitable in that it recorded many sales annually, however, most of these sales were from hire purchase agreement sales. This made the company less liquid as most of the revenue from the sales would flow into the organization in the form of installments and not a once-off payment. In a way to solve the liquidity challenges, it was agreed upon by the management and board of directors of "A" furniture retail company to use debt financing as a way of improving its business and boost its operations. A loan was acquired from CABS bank in 2015. In 2015 the budgeted revenue was $4,500,000 and the actual revenue was $5,372,000 resulting in a variance of $128,000. In 2016 the budgeted revenue was $4,600,000 and the actual revenue was $3,574,174.06 resulting in a variance of $925,853. In 2017 the budgeted revenue was $4,700,000 and the actual revenue was $3,654,351.35 and the resultant variance was $1,045,649. During the three years the company was failing to meet its target figure for revenue. The year 2015 recorded the lowest adverse variance of 2.84% which was as a result of the company having recognized $4,372,000 instead of $4,500,000 which was targeted. According to the sales department of a furniture retail company (2015), the adverse variance was because of poor distribution of stock to the various branches the company has which resulted in revenue being lost. A 20.13% adverse variance was recorded in 2016 which was a result of having recognized $3,574,174.06 instead of the targeted which was $4,600,000. This was said to have been caused by the decision made by the company's management to remove zero deposit sales accounts, according to the sales department. Lastly, in 2017, a variance of 22.5% was recorded. An increase in the revenue figure was noticed from the year 2016 to 2017 but still, the company failed to meet its target. According to the finance department management report (2017), this adverse variance was caused by inadequate stocking of furniture in their various branches because of liquidity challenges. The acquired debt managed to improve the operations in that, the company was able to make more orders for stock but it did not assure that customers were going to buy within the given agreement.

Wachira (2014), Nasieku and Susan (2016) agree that continuous borrowing scares away investors and also established that the unfavourable relationship was connected to organizations having to pay accruing interests thus reducing their profits. In 2015, the funds that were borrowed amounted to $350,000, the interest charged at 12% was $42,000, and profit after interest and tax of $400,000 from 40 branches. In 2016, the debt amounted to $400,000 and interest amounted to $48,000 and the profit thereon was $170,362 from 38 branches. In 2017, the borrowed funds amounted to $200,000 and the interest was $24,000 the reported profit was $50,000 from 29 branches. Debt finance increased by 14.29% because of the $50000 increase in borrowed funds in 2016. This was incurred in order to boost the stocking of furniture and distributing more to the respective branches. Funds borrowed during the year 2017 amounted to $200,000, however, the company saw a 50% decrease in debt during the year 2017. According to the finance department, the decrease was as a result of the company having challenges in meeting up with the interest expenditure accruing because of borrowed funds. The increase in borrowed funds in 2016 of 14.29%, Annual Financial Reports (2016) also led to an increase in the interest charges of $6000. During the year 2017, the company experienced a decrease in interest charges of 50% (24000) this was because the company had reduced its borrowing. The company's profits resulted from the $229,638 decrease in the profit figure for 2016. According to the finance department of "A" furniture retail company, the decrease was as a result of the increasing interests and mostly contributed to by the decline of sales. In 2017, again profits declined from $170,3632 in 2016 to $50000 (29.35%). The audit department of the furniture retail company expressed high concern over the continuous decline of profits. Mentioned in the report, also was the issue to do with the shrinking market share which made the company realize fewer sales.

Tauseef, Lohano, and Khan (2015) and Winn (2014) say that if an optimal debt ratio is maintained by the company it may result in an increase in profits for the company. The continuous decline of profits experienced by the furniture retail company could be linked to the negatives caused by failing to maintain an optimal debt ratio.

"A" furniture retail company came into existence in 2008 with a branch only in Kadoma. From the year it commenced trading, "A" furniture retail company grew rapidly opening branches all over Zimbabwe. From the period between 2015 to 2016, two branches were closed which caused a 5% decrease in growth of the firm. This 5% decrease was said to be as a result of a decline in profits and also branches not operating at full capacity, "A" furniture retail company (2016). During the period from 2016 to 2017, the company closed nine branches, this meant an act of downsizing for the furniture retail company as it had closed business in quite a number of areas. This presented a 23.68% decrease in growth for the company. Obuya (2017) and Lemma and Negash (2013) share a similar view that a significant positive impact might be experienced when a company adopts debt financing as this can help the company invest in long term viable projects and improve the company's profits and growth opportunities but this has not been the case for the furniture retail company.

According to Cekrezi (2013), liquidity is said to have a positive relationship with debt finance. Earlier on, before 2015, when the company chose to borrow funds, the finance director of the furniture retail company expressed concerns over issues to do with liquidity challenges being faced by the company; this was included in the finance report for the year 2014. The decision to borrow funds was also expected to mitigate the liquidity crisis in the company. During the period between 2015 and 2016, liquidity still remained a challenge as most of the sales of the business were on a credit basis and most money would flow in the form of installments. The administration department in its 2016 report noted that it was difficult for them to execute some of their duties due to the lack of cash. Most payments to some service providers like city council were paid when they were long overdue and would have accrued some interest. During the year 2017, the company still was going through this tragedy of liquidity challenges. This affected the distribution of stock to various branches; most branches would go without stock for days. The sales department, in its report for 2017 complained much about the effects of liquidity on the company as it cost their department and the business as a whole in some lost revenue as a result of having no stock. It can be evidenced from the above-stated issues that the debt acquired by the firm managed to revive the business and solve some liquidity issues in the short run but the revenues were not enough to keep up with the expenditure especially the accruing interests. This paved a way for the researchers to study the impact of debt financing on the profitability of the furniture retail company.

The paper hereafter carried out a detailed literature review in Section 2, followed by an outline of the methodology applied in the study in Section 3. Data was also collected, presented, and analysed in Section 4, and finally, conclusions were drawn out in Section 5.

2. LITERATURE REVIEW

2.1. Impact of debt finance on the financial risk of a company

Several authors have attempted to deliberate on issues surrounding debt finance and the financial risk of a company. Most firms seek optimum debts for the formation of optimum capital structures; this implies that debt financing is not considered as a policy but rather a requirement in financing investments (Pontoh, 2017). Management of firms is faced with challenges in choosing which way of financing the business, either equity finance or debt financing. Both of these affect the capital structure of a company, risk, and also profitability. Authors like Pontoh (2017), Acaravci (2015), Nenu, Vintila, and Gherghina (2018), and Daud, Norwani, Mansor, and Endut (2016) all agree to the notion that choosing to incorporate debt finance in the capital structure of the business might be a good decision for the firm but it also increases the risk of the firm in the event that returns are declining. Daud et al. (2016) go on to say that firms must not rely mostly on debt financing to finance business operations as this might lead to a decline in financial performance in the long run. Alnajjar (2015), Mahesar, Zehri, Zafar, and Chaudhry (2015), and Hussan (2016) share a similar view that the determination of the amount of debt and equity mix on the capital structure of a firm is one of the most crucial decisions that is faced by any organisation. The aforementioned authors go on to say that the use of more debt in any capital structure would not be a bad idea but it is considered risky as debt comes with strong terms and conditions which might increase the financial risk of the company. In a study carried out in Sri Lanka on hotels, financial leverage was found to be positively correlated to financial risk, thus higher levels of leverage are associated with high levels of financial risk (Guranathna, 2016). Fang (2016) found out that financial risk is usually influenced by a firm's continuous borrowing, thus putting the firm at risk of high-interest charges.

Authors like Zhang (2013), Hajda (2019), and Nenu et al. (2018), all agree that financial risk increases along with the continuous use of borrowed funds by the company. However, Uremadu and Onyekachi (2018) and Daud at al. (2016) all agree that capital structure (either debt-financed or equity-financed) shows an insignificant relationship with financial performance, also mentioned in these researches was that the element of risk is inevitable in any business environment and decision. Mohammed (2012) attempted the subject matter from a different direction by saying that increase in business risk might lead to the company acquiring more debt in its capital structure so as to deal with some emerging business risk which might be to maintain the market share and or compete more effectively. From the above literature, it is evident that debt forms the capital structure of some companies and in some cases is considered as a requirement and not only a policy (Pontoh, 2017). Previous researches mainly focused on how the incorporation of debt in a capital structure affects a firms' performance and most of the researches were conducted in other countries which are beyond Zimbabwean borders, with different economic

performances and level of development thus providing a loophole in this area for the researchers to study on. The researchers analysed the impact of debt finance on the financial risk of "A" furniture retail company and also linking it with the company's profitability through exploring the capital structure composition of the company.

The discussion on the relationship existing amongst leverage, risk, and the return has remained an unsolved argument as various authors have come up with their different views and failing to agree on one conclusion. Sukaldi (2018) found out that returns are highest for Real Estate Investment Trusts with a leverage ratio between 41.02% and 45.75% and also returns are high per unit of risk. This also agrees with the results of a study which was carried out on industrial companies listed on the Amman Stock Exchange by Al-Qudah (2013) where the results of the study showed a significant correlation between stock returns and systematic risk and financial leverage. Hussan (2016) found out that there are positive impacts of leverage on the risk and return of companies. Christensen, Kent, Routledge, and Stewart (2015) found out that the leverage effect increases significantly during times of financial crisis and also found out that the risk to return trade-off is usually positive. Authors like Fang (2016), Acheampong, Agalega, and Shibu (2014), Naranjo, Saavedra, and Verdi (2014) agree on the fact that heavy debt increases the risk of business failure and poor financial performance since the company has a lot of debt obligations to meet. Higher leverage has been associated with gross underperformance in the studies carried out by the above authors. In a study carried out by Rahim, Khan, Alam, and Khan (2016) in the corporate sector of Pakistan, high leverage led to a high level of systematic risk and volatility in the prices of stock which might also prompt poor performance of the firm.

Gerlach, Obaydin, and Zurbruegg (2015), Mirza, Rahat, and Reddy (2016) all agree that there is no relationship between leverage and returns and risk, go on to suggest that investors should carefully take into cognisance the impact of leverage on idiosyncratic risk and return. Abdullah, Parvez, Karim, and Toheen (2015) found no significant relationship between leverage and return but, however, found a relationship between size and stock returns to be significantly positive. On the other hand, Mirza and Javed (2013) and Zeb, Qiang, and Rauf (2014) all agree that risk might be inevitable given certain types of industries, therefore urge firms to have proper risk management and capital structure policies as they both have an impact on the profitability of a firm. The above scholars argued on whether debt financing affects the risk of an organisation and its overall financial performance. The subject remains in the discussion as no unified conclusion has been reached from the previously done researches. This study sought to explore the impact debt finance has on the financial risk and profitability of a firm as the three components seem to link in relation to the performance of a company as a whole.

Planning of funding and liquidity should be done carefully by the management of a firm as the two have an influence on the financial performance of a company (Waswa, Mukras, & Oima, 2018). Debt financing has an impact on the liquidity of a business and inks with financial risk and performance. Ghazouani (2013) cites that debt finance increases the profitability of a firm getting bankruptcy as debt finance is mostly associated with cash flow problems. This puts the liquidity position of the business in danger. Waswa et al. (2018) agreed that debt affects the cash flows of a firm and increases companies' illiquidity. Due to debt covenants, a company is forced to meet contractual debt obligations even when revenue is poor and this impairs the financial performance of a company. Sajjad and Zakaria (2018) and Zeb et al. (2014), all agree on a negative association between debt and liquidity but rather liquidity would be closely related to financial performance. A positive correlation was found between equity financing and liquidity, Wambui and Muturi (2012), the study went on to recommend banks to favour using equity funding more as it does not negatively affect its liquidity and also to help in mitigating finance risks. Agu and Okoli (2013) found a negative functional relationship between the use of debt finance and liquidity thus implying that firms should not use much of debt finance as it is a risk on their liquidity. Again, Onchonga, Muturi, and Atambo (2016), as cited in Gerio, Ondiek, and Tibbs (2020), and Rahman, Rahman, and Belas (2017) both found a negative relationship between short term debt and liquidity. Gerio et al. (2020) go on to give statistical evidence from the research that a unit in short term debt ratio influences a 0.838 decrease of the liquidity ratio. Ghasemi and Razak (2016) discovered that the level of short term debt of a company is more influenced by liquidity in comparison with long term debt. In a research conducted by Hetrich (2015), which aimed at assessing whether or not credit risk has an impact on liquidity risk, the results of the study showed that a negative credit shock leads to liquidity shortages. However, Sarlija and Harc (2012) found that companies with high leverage are more liquid, this was their result based on their research which aimed at investigating the impact of liquidity on the capital structure of Croatian firms. Ejoh, Okpa, and Inyang (2014) found out that firms in the shipping industry have a good liquidity position yet they have a high degree of leverage. This shows that liquidity is affected by other factors that might not be leverage. The above literature mainly focuses on how debt affects liquidity and performance leaving out the risk element. Included in the term financial risk of a company is also the element of liquidity risk which most of the aforementioned scholars left out providing a gap for this research which will examine how debt finance affects the financial risk of a company and its overall profitability through looking at the liquidity position of a furniture retail company.

Nasieku and Susan (2016) found that continuous borrowing scares away investors and hinders financial performance as organizations will be burdened with high-interest expenses. Failure to meet the debt obligation presents a financial risk to the company. Hussan (2016), Kirmi (2017), and Fang (2016) also supports the notion that use debt to finance investment is considered risky to the company especially if the business is not generating much return. It becomes expensive for the business to operate using borrowed funds as the cost of

capital will not be matching with the revenue being generated and this is risky for the company. Onchonga et al. (2016) found out that a unit increase in short term debt reduces the profit margin ratio to 1.054 and this is because of interests. Authors such as Tauseef et al. (2015), Hirshleifer and Jiang (2010), and Aliakbar, Seyed, and Pejman (2013) all agree in their research results on the fact that debt financing fuels high interests and agency costs especially in environments were the cost of capital is relatively high. This has a negative impact on the profits of the business and might also threaten the liquidity position of the firm. Pradhan and Khadka (2017) found a negative correlation between profitability and long-term debt and this negative correlation was associated with the finance charges which need to be met by a firm regardless of its performance financially in a given period. In the Nigerian pharmaceutical industry, the interest cover ratio was found to have a positive relationship with return on assets (Innocent et al., 2014). Zahra, Daghani, and Oskou (2010) also support their findings with the fact that interests brought about by debt financing causes the profits to diminish.

On the other hand, Pradhan and Khadka (2017) found a positive relationship between debt and profitability in Nepalese commercial banks. This was because the interest rate was low and the company was able to maximise its profits. Nicodemus and Wamugo (2017) and Omai, Njeru, and Memba (2018) argue to say interests' costs do not have a negative impact on the profitability of an organisation later alone posing a financial risk to the company, their argument was based on the fact that interests costs are tax-deductible therefore are of great benefit to the firm. Pradhan and Khadka (2017) found out that an increase in short term debt positively impacts the profitability of the firm. Most of the above authors agree on the fact that finance costs have an impact on the financial performance of a company and not only limited to profitability. This research analysed the impact debt finance has on financial risk of a furniture retail company and its financial performance specifically profitability closely looking at the finance costs incurred by the company following its decision to acquire debt finance.

2.2. Effects of debt financing on the profitability of a firm

In a study carried out on firms listed on the Tehran Stock Exchange, it was concluded that a significant relationship exists between debt financing (external financing) and operational cash flow within a firm (Kordlouie, Mosadegh, & Rad, 2014). Rahman et al. (2017) and Rezaei and Jafari (2015) both agree on the existence of a negative relationship between cash flows and poor debt finance. Rahman et al. (2017) goes onto give statistical justifications for the results produced from the study which showed that a slight increase says 1% in debt to asset ratio and debt to equity results in a 0.501% increase and 0.03% decrease in cash flow of a firm. Goyal (2013) cited that the continuous and poor use of debt negatively affects the cash flow of the firm as the firm would be obligated to make interest payments which are fixed when revenue received by the firm is too little. Zhang (2013) noted that the cash flow crisis is experienced as a result of the regular interests and other finance charges which are obliged for the company to pay for the servicing of debt. This is withdrawn from either the cash reserve of the company or from the bank, this, in turn, decreases the working capital of the company. Chechet and Olayiwala (2014) and Flaherty, Rosecky, Hillard, and Singer (2015) all agree that poor debt financing negatively affects the cash flows of an organisation. Flaherty et al. (2015) go on to elaborate that high debt associated with low cash flows also have a negative impact on the company's capability to respond to changes. Naser, Nuseibeh, and Al-Hadeya (2013), Jafari, Gord, and Beerhouse (2014) are also of the notion that a company with a high leverage ratio is indicative of that company having low cash flows to finance its investments and expansion plans as there is a negative relationship between debt and sensitivity of cash flow. A negative correlation of long term debt ratio and cash flows which also affect corporate cash holdings exists, thus poor debt financing is being seen again to be negatively impacting a firm's cash flows (Ye, 2018). Ghazouani (2013) also noted that poor debt financing might result in cash flow problems for the firm. Cash flow problems as a result of poor debt financing compromise the cash savings of a company and might fail to meet unplanned or unexpected costs that might arise in the company (Guranathna, 2016).

However, Imtiaz, Mahmud, and Mallik (2016) argue that cash flow problems are usually the offsprings of a company having too many debtors such that it has an inadequate cash revenue base. This is most dominant in companies that trade on credit. The problem of cash flow in a business cannot be wholly associated with debt financing as some companies which use equity financing might also face the same problems, therefore the problem of cash flows could be a result of cash shortages in the country which is a macroeconomic issue (Ikapel & Kajirwa, 2017). In research, conducted on Italian listed firms on how the volatility of cash flows from operations affect debt financing and accounts payables, no relationship was found to be existing in firms with high cash flows between cash flow volatility and debt ratio (Santosuosso, 2015). The above scholars discuss and argue on whether debt causes or affects the cash flows of a company. Various thoughts have been presented in the argument above on how debt finance causes cash flow problems and other authors justifying that cash flow problems cannot be said to be caused by debt financing. The above scholars did not mention how the cash flow problems affect the profitability or financial performance of a company, thus providing a research gap for the researcher. This research will analyse whether or not debt financing have a negative impact on the cash flows of a firm and how this affects the profitability of a furniture retail company.

Firms commonly seek debt financing to form an optimum capital structure thus debt is not only considered a policy but a requirement in financing investments (Pontoh, 2017). This indicates that some decisions to acquire debt financing are to finance the company's growth or investment. The decision on the capital structure is determined by a lot of factors like the growth opportunities, a firm might choose to use debt financing as part of its capital structure as it will be expecting more returns as

a result of the predicted future growth opportunities (Acaravci, 2015), this in itself shows that a relationship might be existing between debt financing and growth opportunities. Mhlaba and Phiri (2019) and Adam, Burg, Scheinert, and Streitz (2014) all agree on a negative relationship between long term debt and growth. Adam et al. (2014) go on to mention that it can be possible for firms to grow without increasing their debt portfolio. Ando, Matsumuto, and Matsumuto (2017) also confirmed a negative relationship between debt financing and growth rates of a company, it was also discovered in the research that higher debt ratios happen to enhance but the continuous use of borrowed funds or poor debt financing leads to stunted growth for the company in the long run. Excess use of borrowed funds or debt financing affects financial performance and also negatively affects the growth chances of a company (Harash, Al-Timimi, & Alsaadi, 2014). The research findings also go on to note that poor debt financing poses the risk of a company going bankrupt, thus, the company's survival is threatened and at the end of the day, forces it to shut down rather and not growing. Obuya (2017) indicates that total debt thus both short term and long term debt negatively impact both gross profit margin and return on assets of a company, this hinders the growth of a firm, especially those firms which target ploughing back their profits to attain growth. The research conclusions also state this negative impact of debt finance on growth is contrary with the firm's estimated hopes upon acquiring debt, whereby a firm will be seeking debt to come up with an optimum capital structure that is healthy for the firm, thus, it minimises finance costs and increases firm value (Hashemi, 2013). However, authors like Acaravci (2015), Wahab and Ramli (2014), and Ghazouani (2013) all agree on a positive relationship existing between company growth and debt finance, the rationale behind being that some companies actually acquire debt with the motive of expanding its operations thus achieving growth. Cole and Sokolyk (2018) are also of the view that those firms which use debt financing in their businesses have higher chances of growing faster that is only debt is acquired in the name of the firm and not the owner. Hameed, Iqbal, and Ramzan (2012) also found no negative effect of debt on the growth of a firm. It can be concluded from the above literature that debt financing has an impact or effect on a company's growth even if the impact is not clearly agreed upon due to various research findings from different scholars. Most of the studies carried out to establish whether or not poor debt financing can have an effect on growth were based on listed companies and some on manufacturing companies with the vast of researches of course being done beyond the Zimbabwean borders. This presents a literature gap in which this study seeks to fill in by researching whether debt financing has a positive or negative impact on growth which also has a co-relation with profitability by using a local Zimbabwean company, not listed on the stock exchange but in the retail industry.

Several authors have argued on how debt finance affects financial performance not only restricted to profitability and they seem to come up with different views as results from their studies. In the study, conducted from the research that both long term and short term loans reduce the financial performance of companies especially those which are small (Githaigo & Kabiru, 2015). This means poor debt financing will definitely cause the poor financial performance of such companies. Nazaripour and Shadi (2015) also agree and confirm from their research that a significant negative relationship exists between financing through debt and the performance of a company. Obuya (2017) also found a negative relationship between short term debt on financial performance, which was measured by return on assets. The findings from the research further went on to elaborate on the issue to do with long term debt, where they found out that companies that rely on long term debt are likely to collapse as their cost of capital will be increasing for the company. Memon, Rus, and Ghazali (2015) confirm an adverse impact of debt financing on the firm's profitability especially in times of economic recession as the firm might be unable to cover its interest payment which it will be obliged to, to its creditors. Githaigo and Kabiru (2015) and Tauseef et al. (2015) both agree that debt financing negatively affects the financial performance of a company, thus, poor debt financing causes poor performance. Daud et al. (2016) confirm from the findings of the research that capital structure has an insignificant relationship with performance and also recommended firms not to mainly finance their operations using debt as it might lead to a performance decline. Profitability was found to have a negative co-relation with short term and long term debt and also poses the risk of the firm going bankrupt (Nenu et al., 2018). Uremadu and Onyekachi (2018) are also of the notion that the long term debt ratio to the total asset has a negative impact on return on assets which can be used as a measure of performance. The research findings further on go to recommend firms to use debt as the last financing option as it might place the business at risk of insolvency.

However, authors like Omollo, Muturi, and Wanjare (2018) are of the view that debt has no relevant effect on returns on equity of a company. A strong and positive relationship was confirmed between debt on return on equity and also a positive but not significant effect of debt on return on assets (Karuma, Ndambiri, & Oluoch, 2018; Kirmi, 2017). In periods of economic boom highly leveraged firms were said to perform better, this is because the returns being generated would be enough to cover payments to creditors and finance costs (Memon et al., 2015). Ufo (2015) proves that profitability has a positive and significant influence on debt service coverage. The above literature debate and presented various results from studies conducted in different companies on how debt finance might affect the financial performance of a firm. Most of those researches and findings focused on how debt financing affects financial performance and most of them focused on how it affects profitability. None of the researches attempted to see how poor debt financing might cause poor financial performance. This presents a gap for the researchers to explore on poor financial performance as being one of the effects of debt financing, this also has a bearing on the profitability of the company.

Muller, Steyn-Bruwer, and Hamman (2012) cited that bankruptcy has been commonly used to describe financial distress by various researchers. In a research on the effect of trading activity on financial leverage and financial distress likelihood of Kenyan Listed firms, it was found that there is a positive effect of financial leverage on the likelihood of financial risk (Yegon & Koske, 2018). Muigai (2016) are of the view that an increase in financial leverage in a company exposes the company to liquidity risk and eventually causes financial distress. In an attempt to deal with the problem of financial distress, the company can adjust its debt portfolio (Dudley & Yin, 2018). This shows that poor debt finance might make the company go under conditions of financial distress. Ufo (2015) found that financial distress which is mostly caused by higher levels of leverage also affects the profitability of a company negatively, also causes a cash flow crisis, and might also result in the business going insolvent. Muigai and Murithi (2017) also agree that the effect of financial distress caused by debt financing becomes positive as the company grows. Madhushani and Kawshala (2018) suggest that financial distress which is usually caused by poor debt financing does have a significant impact on the performance of a company financially. Zhang (2013) is of the view that some lenders might start claiming repayment when the business is not performing well and failing to fulfil its debt obligations which are considered more risky and cause financial distress in a company.

However, Rehman (2013) argued that leverage has no relationship with financial distress or even financial risk hence it does not affect firm profitability. In a study conducted on Nigerian manufacturing firms which aimed at investigating the effect of capital structure on corporate financial distress of a company (Fredrick & Osazemen, 2018), the results reveal that capital structure affects financial distress negatively. Zaheer, Farooq, and Wijnbergen (2013) are of the opinion that a firm's value is mostly affected by operating and not financial distress. The above research findings mainly focused on finding the existence of a relationship between debt financing and financial distress and left out how the two affect the profitability of the firm. This provided a research gap for the researchers to discover how poor debt financing affects financial distress and how this affects the profitability of the company as a whole.

2.3. Relationship between debt financing and profitability

Various authors have tried to explore the possibility of a relationship existing between debt financing and profitability. Kirmi (2017), in research that sought to establish the relationship between capital structure and profitability in Nairobi, found out that there is a relationship that exists between short and long term debt on the profitability of a firm, though the relationships might differ depending on the type of debt. Habib, Khan, and Wazir (2016) realised a positive relationship existing between debt financing and profitability of a firm, thus an increase in debt subsequently leads to an increase in the profitability of the firm all things being equal according to the research findings. In a research conducted on the Kenyan Banking sector on the effects of capital structure on profitability, again a relationship was established between debt financing (being one of the pillars of an optimal capital structure) and profitability (Yegon & Koske, 2018). Muchiri et al. (2016), Saeed and Gull (2013), and Achaempong (2014) all agree on a relationship existing between debt financing and financial performance, specifically profitability. However, on the contrary, Dencic-Mihajlov (2014) and Sivathaas et al. (2013) all agree on a weak and insignificant relationship between debt financing and financial performance of a firm, they rather present other variables that might impact the financial performance of a firm which can be the size of the firm, market share, and many other factors. Pratheepkanth (2011) is also of the view that the relationship between debt financing and profitability exists but confirms that it is weak according to the findings of the research conducted. The above literature sought to establish whether or not there is a significant relationship between debt financing and profitability and no conclusion has been reached as to whether say the relationship does exist or not. This relationship seeks to add to the already existing literature on how debt financing is related to profitability by exploring how short term, long term, and total debt is related to return on asset which is the measure of profitability employed in this research.

Long term debt is borrowing or external funding received by a firm which is payable over a period of more than one year (Allen, 2015). In research carried out on energy and petroleum companies listed on Nairobi Securities Exchange, it was discovered that on average long term debt has a negative relationship with profitability, thus, when long term debt increases profitability subsequently decreases and the opposite is true in the event that long term debt ratio has decreased (Kirmi, 2017). Yegon and Koske (2018) also agree with the above results that there is a significant negative relationship between long term debt and profitability. Long term debt has a negative impact on the returns on assets which can be used as a measure of the profitability of a company (Uremadu & Onyekachi, 2018), the research goes on to recommend business management to use debt financing as the last option as it exposes the business to the risk of insolvency. Nenu et al. (2018) also discovered firm profitability to be negatively related to long term debt the reason being sometimes the revenue being realized by the firm will not be matching the cost of capital in certain instances. Javed, Rao, Akram, and Nazir (2015) found that long term debt and total debt have a negative relationship with return on assets which can be used as a profitability measure thus debt financing is negatively related to profitability. Firms that rely more on long term debt are most likely to increase their cost of capital and this negatively affects profitability and also might eventually make the firm collapse (Obuya, 2017). Profitability was found to be negatively related to long term debt in a study conducted on Nepalese commercial banks (Pradhan & Khadka, 2017). In research conducted using evidence from the nonfinancial sector of Pakistan, long term debt was found to be having a negative relationship with the return on assets ratio,

thus long term debt was found again to be having a negative relationship with profitability (Habib et al., 2016).

Allen (2015) defines short debt as borrowing for funding business which is payable within one year. Short term optimisation mainly focuses on liquidity management, which is also related to the financial performance of a company (Waswa et al., 2018). A study conducted on the Nepalese commercial banks which sought to analyse the effect of debt financing on profitability. Results from the research showed a positive relationship between bank's profitability and short term debt and this was attributed to the issues of less interest being paid by the firm which might negatively affect profitability (Pradhan & Khadka, 2017). Yegon and Koske (2018) from the findings of a research carried out on the Kenyan banking sector, also confirmed the existence of a positive relationship between short term debt and profitability. Thus, if short term debt increases profitability is presumed to increase as well. Wachira (2014) also supports the research findings that, indeed, a short term debt has a positive impact on profitability and financial performance in general. Kirmi (2017) established a positive co-relation between short term debt and return on assets which was used as a measure of profitability. The above results were findings from a study conducted on energy and petroleum companies listed on Nairobi Securities Exchange and the study sought to investigate the relationship between capital structure and profitability. Nyamita (2014) is of the view that debt finance has a positive relationship with financial performance but went on to establish from their study that companies that use more of short term are more profitable. The relationship between liquidity ratios and short term debt was seen to be stronger than between long term debt and liquidity and this has an effect on the profitability of a firm (Sarlija & Harc, 2012). Ghasemi and Razak (2016) are of the view that short term debt is influenced by a company's liquidity, thus, if a company is facing liquidity challenges it can seek short term debt to mitigate the liquidity crisis and this positively affects the performance of a company.

However, some authors like Habib et al. (2016) and Modi (2014) argue to say that there is a negative relationship between short term debt and return on assets as it presents the company with current obligations that are to be met and affects profitability. Firm profitability was seen to be negatively related to both short term and long term debt and this was also seen to pose a financial risk for the company (Nenu et al., 2018). Gharaibeh (2015) reveals that profitability has a significant negative association with capital structure (which has a part of it being constituted by short term debt). Osuji and Odita (2014), as cited in Jubaedah, Yulivan, and Hadi (2016), agrees that short term debt negatively affects financial performance as an increase in short term debt resulted in a decrease in profitability of a firm. Both short term and long term debt were found to have no significant effect on return on assets at a 5% level of significance (Kirmi, 2017). No consensus has been reached yet on whether the relationship existing is positive or negative. This research will investigate how short term debt affects the profitability of companies in the retail industry in Zimbabwe.

Debt financing is borrowing or funding business which could either be short term or long term (Allen, 2015). In such cases, the combination of having both the long term and short term brings us to the point of using the term "total debt". Total debt is a combination of both long and short term debt and because of having borrowed features from long and short term debt, authors have conducted researches to find how total debt affects the profitability of a firm. As firms grow larger, they are anticipated to use more debt to finance their operations as they would have more assets to pledge as collateral (Alnajjakr, 2015). Firms with high levels of financial leverage are considered to be those that have higher profitability and the best rating, this symbolises a positive relationship between total debt and firm profitability (Muscettola & Naccarato, 2015). Patel (2014) and Karuma et al. (2018) also agree that leverage has a positive relationship with firms' profitability measured by return on assets. Firms that use leverage enjoy increased investment capacity as well as enjoy the debt tax shield, this increases chances of business growth and overall profitability (Hussan, 2016; Xu, Hu, & Das, 2019). According to Habib et al. (2016), an increase in debt of a company also increases the firms' leverage and firms with high leverage are associated with high levels of profitability. Not only a positive relationship exists between debt financing and profitability but rather a significant positive impact can be established (Haaward, 2017; Yogendnarah, 2015; Ufo, 2015). This is so because most firms borrow with the aim of improving business operations in order to come with an optimum capital structure which positively influences financial performance and to also aid in business growth.

Yegon and Koske (2018), however, concluded that total debt as a whole has no association with the firm's profitability because it borrows characteristics from short term and long term debt. In research on the impact of financial leverage on a firm's profitability conducted on the cement sector of Pakistan, it was found that financial leverage has a statistically negative impact on profitability (Memon et al., 2015). Habib et al. (2016) also confirm the existence of a negative relationship between total debt and return on assets. Capital structure, either debt-financed or equity-financed, has been found to have any significant relationship with financial performance therefore total debt has no effect on a firm's profitability (Uremadu & Onyekachi, 2018; Daud et al., 2016). Kirmi (2017) found a weak relationship between total debt and return on assets. In a study conducted on micro and small enterprises based on Romania, the study investigated the determinants of capital structure. The research findings showed that leverage is negatively related to profitability, liquidity, and tangibility. Most authors managed to identify how total debt affects profitability but the measures of profitability differed from study to study. This research is going to analyse how total debt affects the profitability of a firm using return on assets as a measure and also using a local trading company in Zimbabwe as a case study.

Investment has been found to be positively related to tangibility this signifies that investment increases; tangibility is also expected to increase as well because upon investment companies usually

improve their fixed asset structure (Youssef & El-Ghonamie, 2015). Harc (2015) suggests from the results of the study conducted on Croatian small and medium-sized companies that tangible assets have a positive impact on the long term debt. The reasoning behind being that most financial institutions consider more the issue of fixed assets upon lending money to firms because those assets present that the financial institution can sell these assets and recover their money in cases of the firm had gone bankrupt. Skoogh and Swärd (2015) also agrees that there is a positive relationship between tangibility and leverage because assets held by a company play a crucial role in determining the capital structure choices to be taken by the firm. Tangible assets have a positive influence on the financial capital structure decision of a firm (Nasution, Siregar, & Panggabean, 2017). The study also established that profitability, asset tangibility, corporate tax, and rate of inflation altogether have a significant influence on the financial capital structure of manufacturing companies listed on the Indonesia Stock Exchange. Vuran, Tas, and Adiloglu (2017) mention that most larger firms usually depend more on debt finance as compared to smaller firms and this can easily be associated with the availability of enough collateral being pledged by larger firms to make them eligible to acquire debt. The rate of assets that can be served as collateral (asset tangibility) was also found to be a determinant in capital structures in the Hungarian and French wine industries (Boda & Szucs, 2017). This shows that tangibility is significantly and positively related to leverage. However, Newman, Borgia, and Deng (2013) establish a negative relationship between leverage and tangibility of the Chinese SMEs. Asset structure or tangibility and profitability were also found to be negatively related to leverage (Vuran et al., 2017). Also, Farrukh and Asad (2017) showed that liquidity, profitability, non-debt tax shield, and growth are significantly linked with leverage but the tangibility of assets and firm size proved to be not significantly linked with leverage. Research conducted on banking firms listed on the Indonesian Stock Exchange sought to examine and determine the effect of firm size, profitability, tangibility, non-debt tax shield, and sales growth on capital structure. It was found that tangibility has no effect on the capital structure of a firm (Deitiana & Robin, 2016). Harc (2015) also discovered that the relationship between tangible assets and short term debt is negative and statistically significant from the results of research conducted on Croatian small to medium-sized companies. This research is going to add on to the already existing literature on how debt financing and tangibility are related in the Zimbabwean context as the company to be used as a case study is a company in the retail industry.

2.4. Impact of debt finance on the market share of a company

Debt is acquired for various reasons depending on the organisation, as such it can be adopted to facilitate the growth of the markets by investing more in the business stocks and, promotions and also opening new branches in various areas. Listed and discussed below are the sub-research objectives which the researchers came up with in relation to debt finance and market share which are diversity, product competitiveness, profitability, and leverage, and also customer satisfaction.

Higher levels of debt are associated with higher diversification chances also increase in returns (Qureshi, Akhtar, & Imdadullah, 2012). In a study carried out on companies in the chemical and food sector listed on the Karachi Stock Exchange, it was found that diversity is associated with profit levels and also a debt to finance the diversification process. Ajay and Madhumathi (2012) and Manrai, Rameshwar, and Nangia (2014) agree that diversification, which can take the form of geographical or product diversification, has a positive relationship with a firm's leverage. Non-debt tax shield, performance, profitability, and tangibility were the leverage determinants for the study conducted in India (Ajay & Madhumathi, 2012). Companies engaging in geographical diversification are faced with the challenge of targeting and also wanting to satisfy different people in different regions, hence, they end up acquiring debt thus making them have a debt finance intensive capital structure, this confirms the existence of a positive relationship between debt finance and diversification (Hilman, 2015). In research conducted on the manufacturing sector of the Indonesian Stock Exchange, which sought to explore the effect of firm size and diversification on capital structure and firm value, the results showed that diversification has an effect on the capital structure of a company and also that size has no effect on the capital structure of a company as well (Hamyat, Sarita, & Sujono, 2017). Chechet and Olayiwola (2014) and Foong and Idris (2012) agree on a positive relationship existing between diversification and a firm's capital structure. Foong and Idris (2012) go on to provide evidence that benefits of diversification are contingent on the level of a firm's leverage thus confirming the positive relationship. Ruland and Zhou (2005) discovered that the value of diversified firms increases with leverage. O'Brien, David, Yoshikawa, and Delios (2013) found that debt is less harmful to those firms that manage a stable market portfolio. Highly diversified firms in Namibia were found to be the ones enjoying more profits as compared to the ones who are not diversified Wairimu (2015).

However, Christiningrum (2015) was also of the view that the performance of a firm is negatively affected by the implementation of a diversification strategy. Jouida, Bouzgarrou, and Hellara (2017) established that diversification is usually associated with performance reduction and debt level increase. No relationship was discovered between debt and diversification and also corporate diversification was found not to be used as a strategy to expand a company (Junior & Funchal, 2013). Haque (2014) discovered that leverage negatively impacts on diversification of a company, this was found from research carried out in Pakistan which aimed at determining the impact and association between leverage and diversification. The above studies and findings mainly focused on how debt finance is related to diversification, most of the studies mainly focused on that and left out the profitability aspect thus providing a literature gap for the researcher. This research will explore on how diversification affects both the debt levels of a firm and its overall financial performance, specifically profitability.

According to previous researches, capital structure has been seen to have an important effect on the product market competitiveness of firms (Li & Wang, 2019). Moeinaddin, Nayebzadeh, and Pour (2013) found a negative relationship between product market competitiveness and financial leverage, thus, an increase in financial leverage of a firm results in a decrease in the product market competitiveness of the services or products being offered by the firm. Highly leveraged firms were seen to be charging higher prices especially during periods when the economy is not performing well, this also because these firms will be trying to raise enough revenue to service the debt, keep the business on track and also realise a profit. These high prices limit the customer base of the company, thus making it difficult for it to invest in its market share because of less sales since the product competitiveness will be deterred by the higher prices (Chevalier & Scharfstein, 1996). Abu-Abbas, Alhmoud, and Algazo (2019) also confirm a negative relationship between financial leverage and performance especially for those firms with a high degree of competitiveness and product differentiation. Chevalier (1995) reveals that an increase in a firm's leverage also leads to an increase in the market value of the firm's competitors and this paves way for new rivals and already existing competitors to have a competitive advantage over the firm with a high level of financial leverage. This shows a negative relationship between financial leverage and product competitiveness. Li and Wang (2019) discovered that high debt levels hinder a firm's competitiveness, this was said to be most dominant in industries that are very much concentrated. The high leverage constraints firm's competitiveness to a greater extent.

However, Fonseka, Colombage, and Tian (2014) are of the view that external financing is positively related to a firm's product competitiveness within a certain industry. These results coincide with the ones from another study which aimed at determining the relationship and impact of product competition and financial leverage on financial performance. Competition levels were found to have a positive effect on the financial performance of an entity (Soltani & Nemati, 2017). Heidapoor and Habibipour (2015) reveal that higher levels of competition are usually associated with decreasing revenue as levels of discretionary accruals would have been reduced too, this leads the firms to acquire finance even at high costs and this has a negative impact on the firm's profitability. However, the results of the aforementioned study confirm a positive correlation between greater competition levels and financial leverage. A positive relationship between competition and financial leverage and overall financial performance was also confirmed (Namazi & Ebrahimi, 2012). Liao, Mukherjee, and Wang (2015) realised that financial leverage and product market competition do not share any relationship neither is there one variable that is dependent on the other. Previous researches, which have some of their findings being discussed in the above paragraphs, mainly focused on how long and short term debt affects the product market competitiveness basing on different economies and different industries where different market systems are used, some are perfectly competitive markets, monopolies, oligopolies, and others. These differences presented a research gap for the researchers to carry out a study on how financial leverage impacts firms product competitiveness in Zimbabwe suing a local trading company that is doing business in the Zimbabwean economy.

Financial constraints are generally known to affect a firm's competitive performance and also the market of that particular product, especially in periods of economic recession (Liu, 2017). This means the firm will have to borrow external funds to deal with the financial crisis and also improve product competitiveness, thus a positive relationship exists among product market competition, financial leverage, and performance. Fosu (2013) found that the performance of a company is significantly and positively affected by financial leverage and also it was discovered from the research that product market competition enhances the performance effect of leverage. Soltani and Nemati (2017) also found a positive impact on the financial performance of a firm being denied from the competition level of the product in the market. These results go along with the ones produced from research conducted by Mahmoudzadeh and Seyfi (2017) where it was discovered that a competitive market accompanied by appropriate financial leverage results in an increase in the financial performance of a firm. Profitability was found to be playing a crucial role in firm competitiveness from the research conducted on Greek manufacturing firms in the chemicals, pharmaceuticals, and plastics (Voulgaris & Lemonakis, 2014). Hosseini, Soltani, and Mehdizadeh (2018) found out that competitive advantage factors like quality, innovation, and efficiency were positively related to new product development which promotes firm growth and better financial performance. Managers tend to be more focused with regards to capital structure decisions like deciding how much to borrow especially when product competition is low (Gygax, Wanzenried, & Wu, 2013). This is done in an attempt to raise enough funds to put the product on the market again and improve the financial performance of the firm.

However, Boubaker, Saffar, and Sassi (2017) found that pressure caused by a product's competitiveness on the market leads to a firm relying loss on debt financing. Thus, there is an inverse relationship between debt financing and high product competitiveness. In concentrated product markets, those firms which are highly leveraged lose their market share to their rivals because they will be charging higher prices for their products and this negatively affects the financial performance of a company (Opler & Titman, 2014). Liao et al. (2015) posit that there is no impact on leverage caused as a result of market competition. Most of the researches were conducted in companies or sectors of developed countries with stable growth and economically developed. This makes the results have limited validity or impact when applied to the Zimbabwean economy because it is still a developing country, thus creating a gap to be filled by this research which will seek to establish how leverage, profitability, and financial performance are related using a case of a Zimbabwean trading company in the retail industry.

3. METHODOLOGY

The researchers chose the mixed research approach as it would better address the research objectives guiding this study as it includes and complements both qualitative and quantitative approaches which would best suit the research objectives. Authors like Venkatesh, Brown, and Bala (2013) shared the view that the mixed research approach enhances research studies and this convinced the researchers in adopting the mixed research as the researchers needed quantitative techniques to establish the relationship between debt and profitability from the financial statements and the qualitative ones because there was a need to extract new information from the participants which were to be achieved through the conducting of interviews and questionnaires. The researchers targeted personnel from the finance department and two other related departments which are the administration and the accounting department together with the ones which have an understanding and appreciation of debt finance and how it impacts profitability. The target population for this research consisted of only 25 employees from the accounting department, finance department, administration department, and the managers of these respective departments.

3.1. Quantitative research

The researchers decided to use the quantitative research approach (positive paradigm is the one which focuses on testing objective theories and examining the relationships between variables (Cresswell, 2012). Variables in this research could be measured reliably through the use of ratios and, thus, the researchers adopted the use of quantitative research. The researchers employed the quantitative research approach so as to enable the use of the multiple regression model to observe how profitability is related to debt financing. Testing relationship between variables requires less personal values and focuses more on objectivity analysis, hence the appropriateness of quantitative research method to be used for the research as most of the objectives are on determining the impact of one variable on the other. Testing of relationships requires the researchers to be more of a describer rather than an interpreter of data; data presented showing relationships between variables need to be described so that the research questions are fully answered considering that most of the research questions are basing on analysing the impact of debt finance on related variables and that is one of the main strengths of the quantitative research method (Rahi, 2017), which makes it perfect in addressing this particular research. The subject matter is centred on determining the impact of debt finance on firm profitability, there are a cause and effect relationship being analysed in the research and this can be best addressed using the quantitative research methodology as there is a need for statistical representation. The use of a quantitative research approach was adopted by the researchers which enabled the participants to give their thoughts on how profitability is affected by the various variables in this research but their responses were only limited to the pre-coded answers provided and also through the use of the Likert scale to give accurate and precise answers to suit the research problem.

The study made use of simple linear regression to determine the impact of debt financing and firm profitability. Owner's capital was constant through the research period and so was labour at the furniture shop in use, hence control variables were not used. The simple linear regression model used was to establish the relationship that exists between debt financing which was being measured using the debt ratio and the profitability being measure using the return on assets ratio.

$$Y = \beta_0 + \beta_1 X_1 + \varepsilon \quad (1)$$

where,

Y = dependent variable which is profitability and, in this case, being measured using the ROA;

β_0 = Y-intercept or constant terms.

$\beta_1 X_1$ = independent variable, debt ratio to measure the company's level of debt (total liabilities divided by total assets);

ε = error term.

This model was used to establish the impact debt finance has on the profitability of "A" furniture retail company. This answers the research objective which sought to establish the relationship between debt financing and profitability. The results derived from this model would answer the main reason as to why having this research and would be one of the bases for forming the overall conclusion of this research. The key measures of profitability and debt have been employed which will be key in determining the reliability of the results produced and also make it possible for other entities to be able to see the relationship existing between their debt and the profitability of the entity.

3.2. Qualitative research

There was a need for the researchers to collect current information relating to debt finance and profitability from the participants in the organisation through the use of semi-structured interviews. A qualitative investigation has a greater chance of explaining research by exploring different views given by the respondents thus it helps complement and or reinforce the quantitative techniques and giving the research sound and valid results (Singh, 2016). The researchers employed the use of the qualitative techniques to enable answering of some of the research objectives which were of a non-relationship nature. Some of the information which was needed by the researchers to complete this research could not be found in financial statements but rather directly from the participants. The researcher used a population census rather than going the sampling way this was because the information which was needed for this research would only be gotten from a targeted group which was the finance and accounting team mostly. The researcher did this in an effort to save time and resources which would have been lost by interviewing people who have no knowledge on how the company's finances are. For the research to be a success and for it to have an impact, information from the right people who know and have

experience was needed, however, to avoid bias the researcher went further to interview other departments as well in an effort to gather as much information as possible. The research sought to bring new information pertaining to debt finance and profitability thus implying that there was a need to obtain new and fresh information and evidence to be able to come up with new information to fill in the literature gap.

The study could have employed a purely quantitative approach and could have included other variables to see their relationship with debt. This could have helped to see how the variables within the financial statements relate to each other. Other studies have adopted this approach and have established these relationships, however, a blend of the quantitative and qualitative methods gives a further explanation on why the variables interact as they do within the context of an emerging economy. The use of qualitative methods alone would therefore not suffice to give a narrative in the context of an emerging market.

4. DISCUSSION OF FINDINGS

4.1. What are the effects of poor debt finance on the profitability of a firm?

4.1.1. Cash flow problems

Of the twenty-five issued questionnaires, twenty-four were responded and returned thus yielding a 96% response rate. The researchers aimed at establishing how poor debt financing affects the firm and its profitability. Included in amongst the questions contained in the distributed questionnaires was a question asking on whether or not the respondents agree to the fact that poor debt finance causes cash flow problems in an organisation, and this equipped the researchers with the much-needed information to address this sub research objective. 14/24 (58%) strongly agreed, 7/24 (29%) agreed, 2/24 (8%) were neutral, 1/24 (5%) disagreed, and 0/24 (0%) strongly disagreed that cash flow problems are as a result of poor debt finance. 14/24, which is 58% of the respondents, strongly agree that cash flow problems are as a result of poor debt finance, 7/24 (29%) agreed that cash flow problems are caused by poor debt finance thus giving an aggregate of 21/24 respondents which is 87.5% agreeing that cash flow problems are as a result of poor debt finance. A question on cash flow problems was also included in the interviews conducted. Of the four interviewed participants three of the interviewees, thus (3/4) which is 75%, were highly confident in agreeing to the fact that debt finance causes cash flow problems. The cash flow problems were said to be emerging from the higher interests and finance charges which the company was obliged to pay in order to service the debt acquired, thus, if the money was withdrawn from the bank or cash reserve it then compromises the working capital of the company Zhang (2013). These findings are also in agreement with the ones from research conducted by Goyal (2013) where it was discovered that continuous acquiring and use of borrowed funds in an organisation negatively affects its cash flows as the firm will be obliged to make interests payments and agreed instalment payments regardless of the amount of revenue received by the firm in that particular month or year. Flaherty et al. (2015) also present that high leverage, which is usually associated with low cash flows, negatively affects the company's capability to change or respond to changes as there will be no money to facilitate the change. A furniture retail company spent more than it was receiving as its revenue thus its expenditure was more than its income, finance charges constituted a significant part of the company's expenses.

2/24, which is 8% of the total respondents, were neutral, thus they were not sure of whether cash flow problems are caused by poor debt finance or not. Such responses are usually from some respondents who do not really feel comfortable sharing their information with the general public for some reasons which might be safeguarding the image of the company. 1/24 (5%) disagreed that cash flow problems are caused by poor debt finance. In addition, 1/4 (25%) interviewed respondents did not agree to the fact that debt finance causes cash flow problems. This because there might be other factors that cause cash flow problems that are not related to debt. Imtiaz et al. (2016) share the similar view that cash flow problems cannot be said to be as a result of poor debt finance and argued that cash flow problems might be caused by the company having too many debtors such that its cash revenue base is negatively affected. 0/24, which is 0% of the respondents, strongly disagreed that debt finance causes cash flow problems. Basing on the facts presented by the collected data the researchers perceived that poor debt finance causes cash flow problems in an organisation.

4.1.2. Restricted growth opportunities

16/24 respondents, that is 66.66%, strongly agree that debt finance restricts the growth of a company, 6/24 (25%) of the respondents agree, 2/24 (8.33%) disagree and none of the respondents was neutral neither was there anyone amongst the respondents who strongly disagreed that debt finance restricts growth opportunities of a company. An aggregate sum of 22/24 (which are 16/24 strongly agreeing and 6/24 agreeing) thus, 91.66% agreed that debt finance restricts the growth opportunities of a company. The results from the respondents are similar to the view shared by Harash et al. (2014), whereby their research findings found out that too much use of borrowed funds or poor debt finance negatively affects the financial performance of a company and as a result, the company has no profits to retain or plough back into the business to expand, thus negatively affecting the growth of a company. A negative relationship was confirmed from the research carried out by Ando et al. (2017) on debt finance and growth rates of a company and this goes along with the responses obtained from the 91.66% of the respondents. However, 2/24 (8.33%) disagree that debt finance restricts or limits the growth opportunities of a company and this is supported by Cole and Sokolyk (2018) who are of the view that highly leveraged firms actually have high chances of growing because they are assumed to be having the much-needed funds to necessitate growth. Wahab and Ramli (2014) also agree on rather a positive

relationship between debt finance and company growth, the underlying thought, and understanding being that some companies actually acquire debt in order to expand their operations. Basing on the mode of 16 and the above-presented analysis of the facts and literature, the researcher's findings suggested that debt finance negatively affects the growth opportunities of a company. The researchers found out that indeed debt finance restricts the growth of a company basing on the gathered data presented and analysed above.

4.1.3. Financial distress

1/24 respondents (4.16%) strongly agreed that financial distress is caused by poor debt finance, 9/24 respondents (37.5%) agree that poor debt finance causes financial distress in a company, 10/24 respondents (41.66%) are neutral, unsure on whether poor debt finance causes financial distress, 4/24 (16.66%) disagree to the fact that financial distress is a result of poor debt finance none of the respondents strongly disagreed to this fact. In aggregate 10/24 respondents (1/24 strongly agree and 9/24 agreeing), which is 41.66%, agreed that indeed financial distress is a result of poor debt finance. Ufo (2015) shares a similar view from the findings of the conducted research that financial distress is usually caused by high levels of debt by an organisation and this negatively affects profitability and cash flows of the company. Some lenders might start claiming immediate repayments upon realising that the company is not performing well and is struggling to fulfil its debt obligations as per the agreement, this is very risky for the company, causes financial distress, thus high chances of the business going bankrupt. 10/24 respondents which is another 41.66% are neutral, thus, they are unsure of whether financial distress can be said to be caused by poor debt finance. From this response, there is a 50% probability of financial distress being caused by poor debt finance and 50% of it not being caused by poor debt finance. 4/24 (16.66%) disagree that financial distress is caused by poor debt finance. This is supported by Charalambakis (2014) whose research findings show that most firms who use borrowed funds to finance their operations balance their tax benefit of debt and financial costs, thus a company will not suffer financial distress costs as a result of using debt finance. Overall, the researchers found out that financial distress could not be wholly associated with debt finance.

4.1.4. Poor financial performance

18/24 (75%) respondents strongly agree that poor debt finance results in poor financial performance, 4/24 (16.66%) agreed that poor debt finance causes poor financial performance, 2/24 (8.33%) respondents were neutral and nobody amongst the respondents neither strongly disagreed nor simply disagreed that poor debt finance causes poor financial performance. A total of 22/24 (91.66%) respondents (18/24 strongly agree and 4/24 agree) that indeed the poor performance is as a result of poor debt finance. Nazaripour and Shadi (2015) share a similar view with the respondents' responses by confirming a negative relationship being in existence between debt financing and the performance of a company. Debt forms part of the capital structure of a company and as such capital structure was found to be negatively related to the financial performance of a company, thus debt finance causes poor financial performance, and firms were rather encouraged not to mainly rely on debt finance to finance their operations (Daud et al., 2016). Financial performance can be measured using various yardsticks, one of them being to check the profitability of a company using the return on asset ratio. Uremadu and Onyekachi (2018) confirm that long term debt ratio to total asset ratio has a negative impact on return on assets, which can be used as a measure of performance, thus poor debt finance causes poor financial performance. 2/24 (8.33%) respondents were neutral, thus not sure on whether poor debt finance causes poor financial performance and such responses are usually by the management who would want to protect the image of the company and would not want to air out their views. 0/24 (0%) of the respondents neither disagreed nor strongly disagreed with the fact that poor financial performance is a result of poor debt finance. This is in agreement with a study conducted by Kirmi (2017) who confirm a positive relationship between debt on return on assets meaning that poor financial performance cannot be said to be caused by poor debt finance. The researchers, therefore, found that poor debt finance has a great negative impact on financial performance, thus it fuels poor financial performance.

4.2. The impact of debt finance on the market share of a company

4.2.1. Debt finance on the product and geographical diversification

8/24 respondents (33.3%) agreed that debt finance has an impact on product and geographical diversification, 5/24 (20.8%) were neutral, 4/24 (16.7) strongly disagreed with the fact that debt finance has an impact on the product or geographical diversification, 7/24 (29.2%) disagreed that debt finance has an impact on product and geographical diversification, 0/24 (0%) of the respondents strongly agreed to the fact that debt finance has an impact on product and geographical location. An aggregate of 11/24, 45.8% (7/24 disagree and 4/24 strongly disagreeing) to the fact that debt finance has an impact on product and geographical diversification. This thought is supported by Junior and Funchal (2013), who found no relationship to be in existence between debt and diversification of the company. Leverage was also found to be having no impact on diversity in firms from research conducted in Pakistan by Haque (2014). On the other hand, 8/24 (33.3%) respondents agreed that debt finance has an impact on the product or geographical diversification. Manrai et al. (2014) and Hilman (2015) also share a similar view by confirming a positive relationship between debt finance and diversification of a company, thus showing that indeed debt finance has an impact on the diversity of the company. 5/24 (20.8%) of the respondents were unsure of whether debt finance has an impact on product and geographical diversification, thus, they did not have a proper response. 0/24

respondents strongly agreed to the fact that debt finance has an impact on product and geographical diversification because according to Millao (2015) there need to understand the concept of product relatedness. The understanding being that firms engaging in related product diversification are presumed to be the ones having high leverage rates and have increased profitability. Having considered the responses from the participants and literature presented above the researchers found out that debt finance has no significant impact on the product or geographical diversification.

4.2.2. Product competitiveness

17/24 (70.8%) respondents agreed that debt finance has an impact on the product competitiveness on the market, 1/24 (4.2%) agreed that debt finance has an impact on product competitiveness, 3/24 (12.5%) respondents were neutral to the fact that debt finance has an impact on product competitiveness, 1/24 (4.2%) strongly disagreed that debt finance has an impact on the product competitiveness and 2/24 (8.3%) disagreed that debt finance has an impact on product competitiveness. A total of 18/24 (1/24 strongly agree and 17/24 agree that debt finance has an impact on product competitiveness), which is 75% of the respondents, agreed that debt finance has an impact on the product competitiveness, thus, an increase or decrease in the debt levels of a company affects the competitiveness of a product in some way. Fonseka et al. (2014) share a similar view with the respondents that external financing, which is debt finance, is positively related to the product competitiveness within an industry, thus confirming that debt finance has an impact on the product competitiveness. A positive relationship was also seen to be in existence between competition, financial leverage, and overall financial performance (Namazi & Ebrahimi, 2012). 3/24 respondents, which is a total of 12.5% (1/24 strongly disagree and 2/24 disagree that debt finance has an impact on product competitiveness), disagreed with the fact that debt finance has an impact on the competitiveness of a product. This response is supported by Chevalier and Scharfstein (1996), who are of the notion that debt finance is not in any way related to the competitiveness of a product, thus confirming that debt has no impact on the product competitiveness. 3/24 (12.5%) of the respondents were not sure whether debt finance has an impact on the competitiveness of a product or not. Thus, they gave a neutral response. Basing on the mode of 12, the researchers found out that debt finance has an impact on the competitiveness of a product and this affects its market share as well.

4.2.3. How much of the targeted sales revenue has been lost by the company since the acquisition of debt finance in 2015

This interview question was a structure in an effort to see how much sales revenue has been lost by the company since the acquisition of debt finance in the company in 2015. This will also help in answering the question on how much of the market share has been lost by the company which will bring us to the point of finding out how debt finance impacts the market share of a company. From the four successfully conducted interviews, one main thought has been deduced by the researcher, all of the four interviewees agreed that the company has lost a lot of sales revenue since the acquisition of debt finance by the company in 2015. Information gathered from the four conducted interviews confirmed a 2.85% reduction in sales in the year 2015, thus the minimum targeted sales revenue of $4,500,000 was not reached by the firm. In the year 2016, the company lost 20.13% of its sales revenue resulting from failing to meet with minimum expected sales revenue of $4,600,000, the company recognised $3,574,174.06, thus resulting in a loss of $925,853. In 2017, there was realised a further 22.2% decline in sales. All the four interviewees agreed on these figures as they had one source which is Annual Financial Statements (2015-2014). Market share is calculated using the sales revenue figures thus a decline in the sales revenue figure meant a decrease in the market share of a company. And this might be because highly geographically diversified companies find difficulties in identifying the specific needs of each part of its market; this might trigger customer dissatisfaction and negatively impact its sales and market share (Hilman, 2015). As a result, the researchers perceived that debt finance negatively affects sales of the company and its market share as well and this might be because of other effects of debt finance which are poor financial performance (Obuya, 2017).

4.3. The impact of debt finance on the financial risk of a company

4.3.1. Debt finance on liquidity

Out of the 24 respondents, 18/24 (75%) denied that debt finance helped in mitigating the liquidity challenges in the company and the remaining 6/24 (25%) agreed that debt finance helped in mitigating the liquidity challenges thus they agreed to the fact that debt finance has an impact on the liquidity of a business. This means that 75% of the respondents agreed that there was no change whatsoever brought by debt financing on the liquidity position of the business. Zeb et al. (2014) and Sajjad and Zakaria (2018) agree on a negative association between debt finance and liquidity but their study revealed that these two are distantly related but emphasized that liquidity is to be closely related with performance, thus what was presented by the respondents in relation to this question might be true that no change in terms of liquidity was seen following the acquisition of debt finance. A positive relationship was, however, confirmed between equity financing and liquidity and banks were recommended to use equity finance as it does not disturb its liquidity and the company's financial risk (Wambui & Muturi, 2012). On the other hand, 6/24 (25%) of the total respondents agreed that debt finance indeed helped in mitigating the liquidity challenges in the company. This is supported by Ejoh et al. (2014), who from the study carried out on the shipping industry found out that firms might be highly leveraged and yet have a good liquidity position, thus debt finance can even improve the liquidity position of a company. The researchers

then found out, basing on the information presented by the respondents, that debt finance does not have a direct impact on the liquidity position of the firm.

4.3.2. Finance costs

17/24 (71%) of the total participants, who responded to the questionnaires, mentioned the issue of high finance issues as being one of the major effects of debt finance in the company. Kirimi et al. (2017) and Fang (2016) also agree that continuous use of debt or borrowed funds are considered highly risky for the company, especially when it's experiencing diminishing returns; it becomes tough for the business to operate using those borrowed funds because of the high interests which will not be matching the revenue being generated by the business. Aliakabar et al. (2013) agree that debt finance triggers a sharp increase in the company's expenditure because of the high-interest charges and agency costs that have to be paid regularly to service the debt and failure to corporate might also place the business under the risk of liquidation. High finance charges reduce the amount available as profits for the company that it negatively affects the profitability of a business (Niko & Farokh, 2015). The researchers found that finance charges is one of the effects of debt finance and it poses a financial risk to the organisation if a debt is not properly handled.

4.3.3. What range of figures of the debt ratio must a company always try to maintain?

The decision on whether to borrow or not and how much to borrow is usually one of the crucial decisions that have to be done by the management of a company. Debt forms the capital structure of the company and as such, the issue to do with debt should be handled with care as no one would want to temper the capital structure of any given firm as it forms the base of its creation and survival. Upon structuring this interview question the researchers aimed at determining the level of debt that can be acceptable for the firm, the one that makes it, yields more benefits and reduce the risk of the company failing to meet its financial obligations which might push it into liquidation in the event that returns are diminishing. The researchers managed to interview four people on the range of figures they would expect a firm to try to maintain. The interviewees gave different figures of the debt ratio figures they think would be good and safe for a company to maintain. Two of the interviewees (50%) presented that a debt ratio of 0.5 or lower would be ideal for the business to maintain. Higher levels of leverage have been found to be positively correlated with higher financial risk (Guranathra, 2016), thus there is a need to keep the debt ratio lower or preferably manageable ratio in order to reduce financial risk. Daud et al. (2016) found out that capital structure is positively related to financial performance, thus there is a need for debt finance such that an optimal capital structure is formed for improved financial returns. On the other hand, the other two interviewees presented that a debt ratio of 0.4, or lower, should always be tried to be maintained by the company. Both the figures presented by the interviewees imply that a company must try by all means to maintain a low debt ratio. This will reduce the risks a company can be exposed to in the cases of having too much debt and not being able to manage it well. The researchers thus found out that a lower debt ratio between 0.5 or 0.4 and below should be maintained by a company and this will help to reduce the risks the business is exposed to as a result of its financing decisions.

4.3.4. Debt finance's impact on the financial risk of an organisation

All four respondents (100%) agreed that debt finance has an impact on the financial risk of an organisation. The decision to acquire debt itself is a step in taking a risk. This coincides with the results from research conducted by Hackbarth, Miao, and Morellec (2013) which confirms that a positive relationship exists between financial risk and financial leverage. Thus, an increase in debt results in an increase also in the level of financial risk. Business people are risk-takers but they take calculated risks, that's why there is a need to examine the debt ratio of a company. Guranathna (2016) also agrees that an increase in debt finance results also in an increase in the financial risk of a company. Businesses are willing to take up the risks and finance using debt for several reasons which might be to diversify or to counter competition. Uremadu and Onyekachi (2018) and Daud et al. (2016) also mention that risk is inevitable in any business environment or any decision to be made business wise, that is why business people are referred to as risk-takers but, as mentioned before, they do not take any risk but however, they calculate the risk to see if it is worth though things might deviate from their anticipations at times. Having understood the respondents' answers and also with the aid of supporting literature, the researchers found that debt finance indeed has an impact on the financial risk of an organisation.

4.4. Relationship between debt finance and profitability

The researchers used the regression model in coming up with a proper analysis of this objective and the data which was being regressed was the return on assets (*ROA*) which is the performance measure in this study against the debt ratio (*DR*). This method was employed as the researchers sought to establish a relationship between debt finance and profitability in a more factual way using figures extracted from the entity's financial statements. The results of the regression were as follows.

Table 1. Regression results: Debt finance and profitability

Source		*SS*	*Df*		*MS*	
Model		0.238328	1		.00238328	
Residual		1.8600e-06	1		1.8600e-06	
Total		.0238514	2		.00119257	
ROA	***Coef.***	***Std. error***	***T***	***P > |t|***	***95% confidence***	***Interval***
DR	- .266667	.0057735	-35.80	0.018	.2800259	- .133074
Cons.	.2329333	.0040042	58.17	0.011	.1820556	.283811
No of obs.		*3*				
F (1.1)		*1281.34*				
Prob. > f		*0.0178*				
R-squared		*0.9992*				
Adj. R-squared		*0.9984*				
Root MSE		*.00136*				

*Note: * 2 variables, 3 observations, pasted into data package editor, regression, ROA, DR.*
Source: Research data.

The results above are indicative of the existence of a negative relationship between debt finance and firm profitability. The significance level set for this study by the researchers was 0.05 (5%). The regression yielded a p-value of 0.018 and also had a coefficient of 0.9992, thus confirming a 99.92% that the variability in profitability is well explained by the independent variable used in this research which is debt finance. This shows that a relationship exists between debt finance and profitability thus a change in one variable has a serious effect on the other, therefore, a change in the debt ratio had an impact on the return on asset ratio of the company in this case. These results also justify the employment of the regression model as it was able to bring out the relationship aspect which was key to this particular research.

4.4.1. Long term debt

12/24 (50%) strongly agreed that long term debt has a bearing on the profitability of a firm, 10/24 (41.67%) agreed that debt finance has a bearing on the profitability of a business, 2/24 (8.33%) were neutral on the fact that debt finance has an impact on the profitability of a business, 0/24 (0%) strongly disagreed that debt finance indeed have a bearing on the profitability and also, 0/24, which is 0% of the total respondents, disagreed that long term debt has a bearing on the profitability of a firm. An aggregate of 22/24 (91.67%) which is (12/24 strongly agreeing and 10/24 agreeing that debt finance has a bearing on the profitability of a firm). These findings from the respondents are in agreement with the results from a study conducted by Javed et al. (2015) which confirms a relationship between debt finance and profitability and further goes on to categorise the relationship and found it to be negative. Thus, confirming that debt finance can be significantly related to the profitability of the business. Memon et al. (2015) also confirm that long debt has a bearing on the profitability of the firm which is also in agreement with the majority of the views presented by the respondents in this research. 2/24 (8.33%) of the respondents were neutral on the fact that debt finance has a bearing on the profitability of a firm. Such responses portray a win-win situation, meaning to say there is 50% that the respondents agreed and 50% that they disagreed with the fact that debt finance has an impact on the profitability of a firm as the responses show that the responses are unsure on whether debt finance has a bearing on profitability or not. 0/24 respondents, which 0% of the respondents, disagreed with the fact that debt finance has a bearing on the profitability of a firm (0/24 strongly disagreed and 0/24 disagreed). This gives an insight of other neutral on the issue of long term debt and profitability such authors like Dencic-Mihajlov (2014) who are silent about the issues of long term debt on profitability but rather speak of other factors which affect firm profitability and such factors being the likes of firm size and corporate growth. From the above information gathered from the respondents and the supporting literature, the researchers found out that debt finance indeed has a bearing on the profitability of a firm.

4.4.2. Short term debt

13/24 (54.17%) of the respondents strongly agree that short term debt influence firm profitability, 8/24 (33.33%) of the respondents agree that short term debt influences the profitability of an organisation, 1/24 (4.17%) of the respondents gave a neutral opinion short term having an influence on the profitability of a firm, 2/24 (8.33%) disagree that debt finance has no influence on the profitability of a firm, and lastly 0/24, 0% strongly disagreed that short term date influences firm profitability. A total of 21/24 respondents (87.5%), that is 13/24, strongly agreeing and 8/24 agreeing that debt finance has an influence on the profitability of a firm. An increase in the short term debt of a company is presumed to increase the profits as well (Wachira, 2014), thus confirming the influence that short term debt has on the profitability of a firm and these findings get along with the responses given by the participants in this research basing their answers on their past experiences and what their company has been facing. Kirmi (2017) also confirmed a positive correlation being in existence between short term debt and return on assets which can be a performance measure, thus showing that short term debt has an influence on the profitability of the firm. On the other hand, 1/24 (4.17%) of the respondents were neutral, thus, they were not sure whether short term debt has an influence on the profitability of a firm. Such responses are usually given by company management or senior officers who would want to protect the company's image or even hesitating to pass such sensitive comments about the company because of maybe threats of intimidation. 2/24 (8.33%) of the respondents disagreed with the fact that short term debt has

an influence on the profitability of the firm. Kirmi (2017) shares the same view by confirming that short term debt has no significant effect on the return on assets which is a performance measure. 0/24 (0%) strongly disagreed that short term debt has an influence on profitability. The researchers found out that short term debt has an influence on the profitability of a firm.

4.4.3. Total debt

11/24 (45.83%) of the respondents strongly agreed that total debt has a bearing on the profitability of the business, 9/24 (37.5%) agreed that total debt has a bearing on the profitability, 0/24 (0%) respondents were neutral on total debt having a bearing on the profitability of a firm, 4/24 (16.67%) of the total respondents disagreed that total debt has a bearing on the profitability of a firm and, lastly, 0/24 (0%) of the respondents strongly disagreed that total debt has a bearing on profitability. A total of 20/24 (83.33%), which is 11/24 strongly agreeing and 9/24 agreeing that total debt has a bearing on the profitability of the total respondents, agreed that total debt has a bearing on the profitability of a firm. Authors like Patel (2014) and Karuma et al. (2018) all agree on a positive relationship between leverage and return on assets, thus confirming that total debt has a bearing on the profitability of a business. Memon et al. (2015) and Habib et al. (2016) confirm the existence of a negative relationship between total debt and return on assets. All these literature findings confirm that total debt has a bearing on the profitability of a business though it can be negative. 0/24 (0%) of the respondents gave a neutral response in relation to the issues of total debt having a bearing on the profitability of the firm, thus giving the researchers the assumption that the respondents were confident in their answers and also that they had an understanding of the issue of total debt and also that of profitability. A total of 4/24 (16.67%) respondents which is (4/24 disagreeing and 0/24 strongly disagreeing that total debt has a bearing on the company's profitability) disagreed that total debt has a bearing on the profitability of a firm. Yegon and Koske (2018) support this view by concluding from the research carried out that total debt as a whole has no association with the firm's profitability as it borrows features from both short and long term debt. Having considered the above-mentioned responses from this research, the researchers then found out that total debt has a bearing on the profitability of a firm and it might be positive or negative.

4.4.4. Tangibility

Financial institutions that lend money to businesses are usually said to be interested in knowing the value of the assets held by a firm before they agree to lend their funds to any business (Harc, 2015). As such the issue of asset tangibility can be associated with the profitability of a company as it is one of the major determinants considered upon acquiring of debt which can be used to improve the business operations. The researchers found it necessary to determine whether tangibility has a bearing on debt financing. 8/24, which is 33.33% of the respondents, strongly agreed that tangibility has a bearing on debt finance, 14/24 (58.33%) of the respondents agreed that tangibility has a bearing on debt finance, 1/24 (4.17%) were neutral on the fact that tangibility has a bearing on debt finance, 1/24 (4.17%) of the respondents strongly disagreed that tangibility has a bearing on debt finance and, lastly, 0/24 (0%) respondents disagreed that tangibility has a bearing on debt finance. An aggregate of 22/24 which is a total of 91.67% (i.e., 8/24 strongly agreeing and 14/24 agreeing that tangibility has a bearing on debt finance) agreed that tangibility has a bearing on debt finance. Nasution et al. (2017) also shares a similar view that tangible assets have a positive influence on the financial capital structure that can either be equity-financed or debt-financed. Vuran et al. (2017) also mention that most large companies rely on debt finance because they have enough collateral to pledge thus tangibility has a bearing on debt finance. 1/24 respondents which is 4.17% were neutral on whether tangibility has a bearing on debt finance, thus they were unsure of whether tangibility has a bearing on debt finance. On the other hand, a total of 1/24, 4.17%, disagreed that tangibility has a bearing on debt finance (1/24 strongly disagreed and 0/24 disagreed). Deitiana and Robin (2016) argue that tangibility has no bearing on debt finance because some small firms which to have many tangible assets can also qualify to acquire debt. Having considered all the given responses, the researchers found out that tangibility indeed has a bearing on debt financing or the amount of debt to be acquired by a firm.

4.5. Major research findings

From the information provided by the respondents, it can indeed be concluded that debt finance increases the financial risk of a company as it has been said that continuous borrowing exposes the business to a high risk of bankruptcy. From the results of the study, cash flow problems, poor financial performance, and redundant growth were found to be the major effects of poor debt finance. This was evidenced by the modal class of responses from the questionnaires which ranged from 87% to 92%. Thus, poor debt finance causes cash flow problems, redundant growth, and poor financial performance and the major reason being that of the high cost of capital which eats too much into the company's profits. More debt is needed to improve product competitiveness in a competitive market like the retail industry in order to gain a bigger market share, thus it has an impact on product competitiveness. Debt finance was found to also have an impact on customer satisfaction as debt allows the implementation of competitive projects and promotions. The results from the study were indicative of the existence of a negative relationship between debt finance and firm profitability. The regression yielded a p-value of 0.018 which is way much lower than the one set which was 0.05. The study also had a coefficient of 0.9992, thus confirming a 99.92% that the variability in profitability is well explained by the independent variable used in this research which is debt finance.

5. CONCLUSION

The research aimed at establishing and determining the impact of debt finance on the profitability of a firm following the decline in profitability which was being experienced by the furniture retail company as a case study since the acquisition of debt. The acquired debt was intended to boost the operations of the business and increase its returns as well as growth opportunities but this had not been the case for the company from 2015 to 2017, as it had been experiencing a decline in its profitability since the adoption of debt finance. The researchers concluded that debt finance does not improve the profitability of the firm and this was confirmed by a negative and statistically significant relationship of p-value of 0.018 and coefficient of 0.992. The financial executive of the furniture retail company is recommended to carry out a cost-benefit analysis of debt financing and consider terms and conditions of debt finance before acquiring debt, paying closer attention to issues to do with finance costs because these are an expense, hence an outflow of economic resources from the entity that may end up negatively affecting their profitability. Ploughing back profits as a way of attaining growth should also be considered as it is a less expensive way of attaining growth. The company must always aim at performing to its best to get better returns which can also be invested back into the organisation for it attain growth without experiencing finance charges which might be too high because the lenders who are the financial institutions also want to earn something from lending that money. There is a need for the company to strategically plan and deliberate on issues to do with the financing of the business and avoid making hurried decisions because of pressure and maybe the situations being presented by the business. Making decisions when under pressure might limit the firm's ability to analyse and weigh options because there will not be enough time to do so as the company will be in desperate need of the funds. The current study focused on a case study of a small furniture shop in Zimbabwe with a total population of 25 workers and also used secondary data for 3 years to draw its conclusions concerning debt and profitability. Future study should be conducted with a larger population and different sized furniture shops preferably with control variables such as size, labour, capital, and economic volatility for comparison purposes.

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